

FDIC State Profile

Summer 2005

Pennsylvania

Pennsylvania's job growth accelerated in first quarter 2005 but trails the U.S.

- After three years of employment declines, Pennsylvania's economic recovery continued. Statewide job growth of 1.1 percent in first quarter 2005 was the highest quarterly rate in over four years (See Chart 1). A growing healthcare sector, increased tourism, and fewer manufacturing job losses have helped improve the state's economic picture.
- The employment rebound has encompassed all of the state's metropolitan areas with **Lebanon, Erie, and State College** experiencing the fastest pace of job growth. **Pittsburgh's** job growth, the lowest among the state's metropolitan areas, slightly improved during the past year, reflecting job gains in health and leisure services and an easing of manufacturing losses.

The state's healthcare sector is a key driver of economic growth.

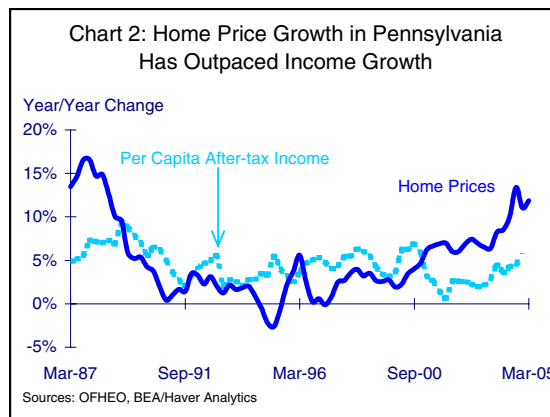
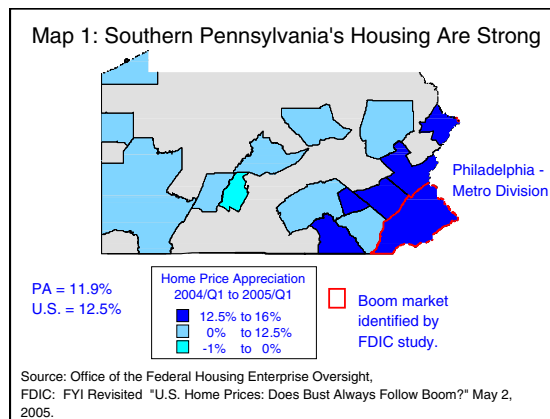
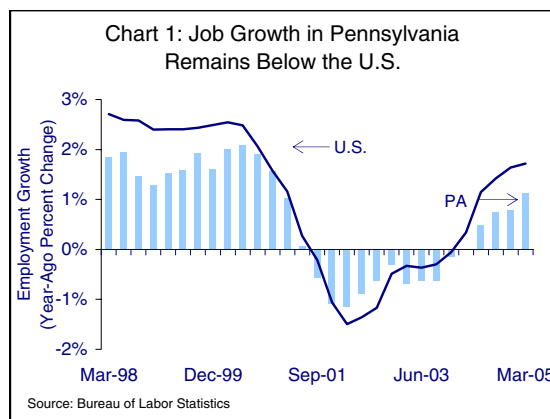
- Since 1990, health and social service professionals have accounted for an increasing share of Pennsylvania's workforce, now representing 14 percent of all jobs. Pennsylvania ranks among the top ten states in health and social workers per capita and ranks third as a percent of the workforce. Outpatient services, home health care professionals and elder-care nursing are among Pennsylvania's faster growing occupations because of an aging population.

Pennsylvania's tourism trends are the best in years.

- Eager to offset manufacturing job losses, the state has increased efforts to attract tourism. Employment in Pennsylvania's tourism industry increased 2.4 percent in first quarter 2005, the highest first quarter growth rate in five years. After trailing the nation in 2003, statewide hotel occupancy rates reached 61 percent in 2004 and approximated the national average.

Home price appreciation continued to increase and exceeds personal income growth.

- Home price appreciation has increased throughout the state (See Map 1). A recent FDIC study identified 55 "boom" housing markets nationwide, which included the



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Philadelphia metropolitan area.¹ Increased population, improved job growth, limited housing supply, and innovative mortgage products have contributed to strong housing trends.

- Home price growth has been less robust in **Western Pennsylvania** because of a weaker economy and limited population growth.
- Statewide house price appreciation has exceeded personal income growth since 2000 (See Chart 2). Home price appreciation in excess of income growth may constrain housing affordability, particularly for first-time home buyers and borrowers with marginal finances.

Strong home price appreciation has contributed to increased popularity of adjustable-rate mortgages (ARMs) in the state.

- Despite historically low long-term mortgage rates, the use of ARMs in Pennsylvania has increased in the past two years (See Chart 3). Some ARMs offer lower initial monthly payments than fixed-rate mortgages enabling borrowers to purchase homes that they otherwise might not be able to afford. Should interest rates rise, the repayment ability of some ARM holders could be constrained.
- During 2004, interest-only (IO) mortgages, which defer principal payments for a specified period, represented about 11 percent of securitized mortgage loans originated in Pennsylvania.²
- The increased use of innovative mortgage products may suggest that homebuyers are stretching to keep pace with increasing home prices. Interest-only mortgages may expose homebuyers to greater repayment risk when the loan re-prices or principal payments begin.

The state's FDIC-insured institutions report steady profitability but face a flatter yield curve in 2005.

- Pennsylvania's insured institutions reported stable profitability in first quarter 2005 compared with the same quarter one year ago. The median net interest margin (NIM) was unchanged as asset yields and funding costs increased in step reflective of higher interest rates, and non-interest income was flat compared with one year ago.
- Approximately one-third of Pennsylvania's insured institutions (three times the national average) focus on residential lending and have benefited from strong housing

markets, particularly in **Eastern Pennsylvania**.³ However, residential lender net interest margins, which typically are influenced by the spread between long- and short-term interest rates, may narrow as the yield curve shifted to its flattest level in four years.⁴

Credit quality in Pennsylvania is favorable, but remained weaker in the western part of the state.

- The median loan delinquency ratio among Pennsylvania's insured institutions, at 1.29 percent, is below the national ratio of 1.48 percent. Although higher than the nation, past-due ratios among institutions headquartered in Central and Western Pennsylvania have modestly improved during the past year (See Chart 4).

Chart 3: In 2004, ARM's Increased in Pennsylvania Despite Low Rates on Fixed-Rate Mortgages

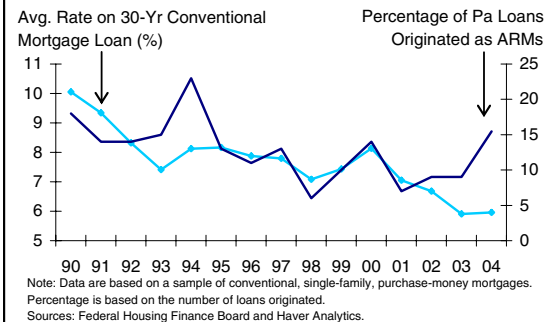
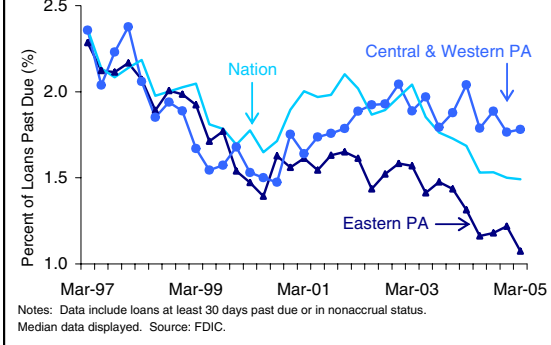


Chart 4: Credit Quality in Pennsylvania is Favorable But Weaker in the West



¹Cynthia Angell and Norman Williams, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html. A boom market is defined as one in which inflation-adjusted home prices rose by at least 30 percent during the 2001-2004 period.

²Peter Coy, "A Growing Tide of Risky Mortgages," Business Week, May 18, 2005.

³"Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in one-to-four family mortgage loans and mortgage-backed securities.

⁴The yield curve is defined as the difference between the monthly average rate on 10-year and 3-month U.S. Treasury securities.

Pennsylvania at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	0.0%	-0.7%	-1.1%	1.0%
Manufacturing (12%)	-0.7%	-5.4%	-5.8%	-9.0%	-1.5%
Other (non-manufacturing) Goods-Producing (5%)	1.5%	0.8%	-2.4%	-0.3%	2.3%
Private Service-Producing (70%)	1.6%	1.0%	0.1%	-0.1%	1.7%
Government (13%)	0.3%	-0.1%	0.9%	2.0%	0.2%
Unemployment Rate (% of labor force)	5.3	5.5	5.8	5.4	4.3

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	4.0%	2.2%	2.7%	3.3%
Single-Family Home Permits	-23.9%	34.0%	-11.8%	10.4%	-8.0%
Multifamily Building Permits	-41.0%	82.1%	39.1%	19.6%	-43.7%
Existing Home Sales	3.4%	2.3%	2.8%	8.3%	4.6%
Home Price Index	11.9%	8.5%	6.9%	6.0%	6.2%
Bankruptcy Filings per 1000 people (quarterly level)	1.26	1.20	1.21	1.12	1.10

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	256	267	278	288	301
Total Assets (in millions)	334,918	308,678	291,321	267,424	259,781
New Institutions (# < 3 years)	9	8	8	16	19
Subchapter S Institutions	5	5	4	4	5

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.29	1.45	1.70	1.65	1.63
ALLL/Total Loans (median %)	1.08	1.13	1.14	1.09	1.07
ALLL/Noncurrent Loans (median multiple)	2.07	1.55	1.44	1.50	1.52
Net Loan Losses / Total Loans (median %)	0.06	0.08	0.09	0.09	0.08

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.35	9.14	9.00	9.10	9.43
Return on Assets (median %)	0.90	0.90	0.91	0.89	0.89
Pretax Return on Assets (median %)	1.21	1.22	1.23	1.23	1.19
Net Interest Margin (median %)	3.62	3.62	3.63	3.63	3.60
Yield on Earning Assets (median %)	6.55	6.54	6.73	6.90	7.16
Cost of Funding Earning Assets (median %)	2.90	2.90	3.09	3.28	3.58
Provisions to Avg. Assets (median %)	0.09	0.10	0.10	0.10	0.09
Noninterest Income to Avg. Assets (median %)	0.46	0.49	0.47	0.47	0.47
Overhead to Avg. Assets (median %)	2.65	2.60	2.59	2.59	2.62

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	61.8	58.5	60.0	63.5	63.8
Noncore Funding to Assets (median %)	18.8	18.2	17.6	16.9	16.5
Long-term Assets to Assets (median %, call filers)	35.3	34.7	34.2	36.8	38.0
Brokered Deposits (number of institutions)	50	43	39	33	29
Brokered Deposits to Assets (median % for those above)	1.3	1.8	1.3	2.5	1.8

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	45.2	45.9	47.3	48.3	42.3
Commercial Real Estate	150.5	147.3	140.3	120.4	114.0
Construction & Development	15.7	14.9	12.3	11.8	9.7
Multifamily Residential Real Estate	5.9	5.9	5.3	5.3	5.1
Nonresidential Real Estate	111.9	110.5	105.4	100.0	89.7
Residential Real Estate	290.7	293.8	314.9	337.2	338.9
Consumer	20.6	23.3	27.7	32.7	43.1
Agriculture	0.9	1.0	1.2	1.0	1.3

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	153	181,748	< \$250 million	131 (51.2%)
Pittsburgh, PA	64	53,280	\$250 million to \$1 billion	96 (37.5%)
Allentown-Bethlehem-Easton, PA-NJ	34	11,502	\$1 billion to \$10 billion	24 (9.4%)
Scranton--Wilkes-Barre, PA	24	9,699	> \$10 billion	5 (2%)
Harrisburg-Carlisle, PA	32	8,284		